1. You can give the average of two years before the War plus a percentage on all extra profit earned.

2. You can do as my memorandum suggested, and simply apply the existing machinery of the Excess Profits Tax, making the Exchequer proportion as high as you like.

3. You can give the average of two years before the War and anything more, or nothing.

4. You can deal with shipping on the exact lines of Controlled Establishments, which get the average of two years before the War plus 20 per cent.

My own mind is clear. I believe it is a mistake not to leave an incentive to men to exert themselves to the utmost, however trifling that *Value oftfa* incentive may be. In my opinion, the ff5& definitely fixed figure in Controlled Establishments is a blunder. There is absolutely no incentive to economy, and the results are just as might be expected. In many shops you get neither care of time nor of money, and the same applies very much to railway companies. I therefore specially recommend for your consideration either No. i or No. 2 of the above suggestions. Under either you take the two years' pre-War average as your basis, and by granting a percentage, however small, on all extra profit earned, you will secure the whole-hearted effort on the part of

shipowners and their staffs, through whom we must continue to work.

I think no greater mistake could be made than by attempting to take over in any other way British shipping. You retain all the advantages of